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FISCAL IMPACT STATEMENT

LS 7830
BILL NUMBER: HB 1548

NOTE PREPARED: Feb 16, 2007
BILL AMENDED: Feb 15, 2007

SUBJECT: Various Energy Incentives.

FIRST AUTHOR: Rep. Stevenson
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 2007	FY 2008	FY 2009
State Revenues			(5,500,000)
State Expenditures		2,300,000	2,300,000
Net Increase (Decrease)		(2,300,000)	(7,800,000)

Summary of Legislation: (Amended) The bill provides various energy related tax incentives. It establishes a Biomass Grant Program. It also appropriates money to: (1) the Biomass Grant Program; and (2) the Purdue University Technical Assistance Program.

Effective Date: July 1, 2007; January 1, 2008.

Explanation of State Expenditures: (Revised) *Biomass Grant Program:* The bill establishes a Biomass Grant Program to be administered by the Office of Energy and Defense Development (OEDD). The bill requires the Department of Agriculture to assist the OEDD in carrying out its duties relating to the grant program. The authorizes the OEDD to provide grants to individuals and various entities to defray part of the cost of installing a biomass energy project using anaerobic digestion, gasification, or fast pyrolysis. The grant program would be effective only in FY 2008 and FY 2009. The bill makes an annual appropriation of $2.0 M to the OEDD, and limits to $2.0 M the total grants that may be awarded under the Program each fiscal year.

Grants could be awarded to individuals, corporations, pass through entities, unincorporated associations, governmental entities, or any other legal entity. A grant to an individual or entity may not exceed the greater of 25% of the project costs or $250,000. Thus, a single project costing $8.0 M or more could potentially receive the total aggregate grant amount of $2.0 M available in a fiscal year.

Purdue Technical Assistance Program: The bill makes appropriations to the Purdue Technical Assistance Program for a five-year period beginning in FY 2008, to be used for operating expenses of its Industrial Energy Services Program. The appropriations consist of: $600,000 for the 2007-2009 biennium; $500,000 for the 2009-2011 biennium; and $400,000 for FY 2012. The bill provides that appropriations do not revert to the state General Fund at the close of any state fiscal year, but remain available to Purdue University until the purpose of the appropriations is fulfilled.

The bill requires the director of the Technical Assistance Program to annual report the program activities funded by the appropriations to the Office of Energy and Defense Development and the Legislative Council.

According to the Purdue University Technical Assistance Program, the Industrial Energy Efficiency Services Program assists energy intensive industrial companies in decreasing their energy usage. Assistance from the Program is available to companies with annual energy bills greater than $500,000. The Program reports that assistance includes: (1) energy efficiency assessments; (2) identification of appropriate state and federal assistance programs; (3) energy saving tips; (4) direction in obtaining software tools to help manage energy usage; and (5) technical training for management.

Explanation of State Revenues: (Revised) *Ethanol Production Tax Credit:* The bill provides for a separate tax credit for cellulosic ethanol production, and specifies that current ethanol tax credits and tax credit limits apply to production of grain ethanol and not cellulosic ethanol. The cellulosic ethanol production tax credit is equal to a maximum of $20.0 M per taxpayer producing at least 40 M gallons of cellulosic ethanol in a taxable year. The bill also specifies that the current $50 M aggregate limit on all tax credits for grain ethanol production and biodiesel production does not apply to the new tax credit for cellulosic ethanol production.

Background Information: Current statute provides credits against a taxpayer's Sales and Use Tax, AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for production of ethanol, biodiesel, and blended biodiesel. The tax credits are: (1) $1.00 for each gallon of biodiesel manufactured in Indiana and used to produce blended biodiesel; (2) $0.02 per gallon of blended biodiesel produced in Indiana using biodiesel produced in Indiana; and (3) $0.125 per gallon of ethanol produced at an eligible facility in Indiana. The maximum credits that may be awarded to a taxpayer for ethanol production are specified below:

Ethanol Production Credit	
Maximum Credit	**Annual Production Level**
$2 M	At least 40 M gallons, but less than 60 M gallons.
$3 M	At least 60 M gallons.

In addition, the taxpayer limit for the biodiesel and blended biodiesel production credits is $3 M, with provision for the Indiana Economic Development Corporation to increase this limit to $5 M for the biodiesel production credit. Current statute also limits the total ethanol and biodiesel production credits for all taxpayers and all taxable years to $50.0 M, with allocations of at least $4.0 M under this cap to each tax credit. The IEDC has awarded a total of $50.0 M in ethanol and biodiesel tax credits at this time - $32.0 M for 12 ethanol production facilities; $14.0 M for four biodiesel production facilities; and $4.0 M for two blended biodiesel production facilities.

Grain ethanol and cellulosic ethanol are the same product, but are produced utilizing different feedstocks and processes. Grain ethanol is produced from corn, wheat, or soybeans. Cellulosic ethanol can be produced from agricultural plant waste, plant wastes from industrial processes, and energy crops grown specifically for fuel production, such as switchgrass.

Energy Tax Credits: The bill establishes four new tax credit for various purchases of, and investment in, energy savings and energy efficiency equipment, and energy generation facilities and equipment. The table below summarizes the potential revenue loss that these tax credits could potentially generate. The four tax credits are effective beginning in tax year 2008, so the annual fiscal impact likely would not begin before FY 2009. However, some taxpayers may reduce quarterly estimated payments the first half of 2008 in anticipation of receiving tax credits. This could potentially affect FY 2008 revenue.

Tax Credit	**FY 2009**
Energy Savings Tax Credit	$1.0 M
Renewable Energy Systems Tax Credits	$2.0 M
Energy Efficiency Program Tax Credit	$2.5 M
Fueled Energy Investment Tax Credit	Indeterminable

<u>Energy Savings Tax Credit</u>: The bill establishes a nonrefundable tax credit for expenditures on energy star heating and cooling equipment by individual and corporate taxpayers against the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax liability. To be eligible for the tax credit a business must be a "small business." The tax credit is equal to the lesser of 20% of the amount of expenditures on such equipment during the taxable year or $100. The bill limits to $1.0 M the aggregate amount of credits that may be allowed in a state fiscal year. This would provide for 10,000 taxpayers to claim the maximum $100 tax credit. <u>Data on annual energy star purchases in Indiana, purchase prices, and average net tax liabilities for individual and corporate taxpayers suggests that the annual fiscal impact of the credit will reach the $1.0 M annual maximum each year. The fiscal impact of the credit is expected to begin in FY 2009.</u>

The bill allows the credit for purchases of energy star furnaces, water heaters, central air conditioning systems, room air conditioners, and programmable thermostats. In order to receive the tax credit, a taxpayer must have the expenditures for the energy star heating and cooling equipment certified by the Office of Energy and Defense Development. The Energy Star program was developed by the U.S. DOE and the EPA. An appliance receives an Energy Star label if it is significantly more energy efficient than the minimum government standards for energy efficiency. According to the EPA, Energy Star-labeled products are typically the most energy-efficient products available. The bill defines a "small business" as an independently owned and operated business with its principal office located in Indiana. To be a "small business" the business may not have more than 100 employees and its average annual gross receipts may not exceed $10.0 M, unless it's a manufacturing business in which case it only has to meet the employment requirement.

<u>Renewable Energy Systems Tax Credits</u>: The bill establishes a nonrefundable tax credit for expenditures on renewable energy systems by individual and corporate taxpayers against the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax liability. The tax credit is equal to lesser of:

> (1) 25% of the amount of expenditures on a geothermal heating and cooling system during the taxable year or $2,500 for installations in a structure of less than 10,000 square feet, or $5,000 for installations in larger structures.
>
> (2) 15% of the amount of expenditures on a qualified wind energy system during the taxable year or $2,500 for installations in a structure of less than 10,000 square feet, or $5,000 for installations in larger structures

The bill limits to $2.0 M the aggregate amount of credits that may be allowed in a state fiscal year. This would provide for 400 taxpayers to claim a $5,000 tax credit or 800 taxpayers to claim a $2,500 tax credit. In order to receive the tax credit, a taxpayer must have the expenditures for the renewable energy system certified by the Office of Energy and Defense Development. <u>Data on national installation totals for the systems and equipment defined renewable energy systems and average net tax liabilities for individual and corporate taxpayers suggests that annual fiscal impact of the credit will reach the $2.0 M annual maximum each year. The fiscal impact of the credit is expected to begin in FY 2009.</u>

<u>Energy Efficiency Program Tax Credit</u>: The bill establishes a nonrefundable tax credit for "qualified energy efficiency costs" incurred by an individual or corporate taxpayer against the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax liability. The tax credit is equal to the lesser of 10% of the qualified costs or $250,000. The bill limits to $2.5 M the aggregate amount of credits that may be allowed in a state fiscal year. This would provide for 10 taxpayers to claim the maximum $250,000 tax credit.

The bill defines "qualified costs" as cost recommended by the Purdue University Technical Assistance Program and incurred by the taxpayer to improve the energy efficiency of the taxpayer's facilities. The bill also requires that the taxpayer has incurred at least $500,000 in energy costs in a year beginning in 2005, and receives industrial energy services from the Technical Assistance Program beginning in 2006. (Note: Energy efficiency services from the Technical Assistance Program are limited to firms incurring more than $500,000 per year in energy costs.) <u>Reportedly, 58 firms received technical assistance in the energy efficiency area in 2005. It is unknown what energy efficiency costs these firms incurred as a result of this technical assistance. As a result, the amount of credits that may be claimed under this provision is indeterminable, with the annual maximum set at $2.5 M.</u>

<u>Fueled Energy Investment Tax Credit</u>: The bill establishes a nonrefundable tax credit for "qualified investment" in facilities to produce and transmit energy from: (1) gasified, liquified, or methanized biomass produced in Indiana, Indiana coal, petroleum coke produced in Indiana, or oil shale located in Indiana; or (2) coal mine methane when used in the production of power. The credit may be claimed by individual and corporate taxpayers against the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, Financial Institutions Tax, or Utility Receipts Tax liability. The tax credit is equal to the lesser of 10% of the qualified investment or $50,000,000. The bill requires the taxpayer to take the credit in equal installments over 10 years. The potential fiscal impact of this tax credit is indeterminable and depends tax credit approval by the Indiana Economic Development Corporation (IEDC) and the Office of Energy and Defense Development (OEDD).

To obtain the tax credit, a taxpayer must apply to the IEDC before making the investment. Upon determination by the IEDC that the proposed investment satisfies the tax credit requirements, it must enter into an agreement with the taxpayer. The bill requires a taxpayer to be in compliance with the agreement each year to receive an annual installment of the tax credit. The agreement must include:

(1) A description of the project.
(2) The first year the credit will be claimed.
(3) The amount of tax credit allowed each year.
(4) A requirement that the taxpayer must maintain operations at the project site for the 10 years the credit is available.
(5) A minimum employee compensation requirement at the site.
(6) A minimum total payroll requirement at the site.
(7) A requirement that the fuel used is 100% Indiana fuel (biomass produced in Indiana, Indiana coal, petroleum coke produced in Indiana, oil shale located in Indiana, or coal mine methane).
(8) A requirement that the facility will comply with energy efficiency and emission standards recommended by the Office of Energy and Defense Development and the IEDC.

Background Information: The tax credits are nonrefundable and may not be carried back or carried forward. In addition, the tax credits are not assignable. The bill provides for the credits to be taken by shareholders, partners, or members of the pass through entity. Since the credits are effective beginning in tax year 2008, the fiscal impact likely would not commence before FY 2009. However, some taxpayers could potentially reduce quarterly estimated payments affecting FY 2008 revenue.

Revenue from the Corporate AGI tax, the Insurance Premiums Tax, the Financial Institutions Tax, and the Utility Receipts Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Economic Development Corporation; Office of Energy and Defense Development; Department of Agriculture; Purdue University.

Local Agencies Affected:

Information Sources: Bill McNary, D and R International, 301-588-9387. U.S. EPA and U.S. Department of Energy, www.energystar.gov. Purdue University, Technical Assistance Program, http://www.tap.purdue.edu/html/index.html. U.S. Dept. of Energy, Energy Efficiency and Renewable Energy, http://www.eere.energy.gov/consumer/your_home/space_heating_cooling/index.cfm/mytopic=12640. Biomass Heating Systems, www.cornburner.com (residential). Montana Dept of Natural Resource Conservation, http://dnrc.mt.gov/forestry/Assistance/Biomass/systems.asp (commercial/industrial). American Wind Energy Association, www.awea.org.

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